Cost-of-Living Adjustments
National Academy of Social Insurance
2018 Summer Intern Academy
August 1, 2018

Kyle Burkhalter
Office of the Chief Actuary
Social Security Administration
Cost-of-Living Adjustments

- Since 1975, Social Security’s general benefit increases have been based on increases in the cost of living, as measured by the Consumer Price Index (CPI)

- Effective for December benefits, payable in January

- Benefits keep pace with inflation
Consumer Price Index (CPI)

- Bureau of Labor Statistics produces monthly data.
- COLAs are based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).
- COLA = percentage increase (if any) in the average CPI-W from Q3 of last year to Q3 of current year.
## COLA series, 1975-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>COLA</th>
<th>Year</th>
<th>COLA</th>
<th>Year</th>
<th>COLA</th>
<th>Year</th>
<th>COLA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>8.0</td>
<td>1986</td>
<td>1.3</td>
<td>1997</td>
<td>2.1</td>
<td>2008</td>
<td>5.8</td>
</tr>
<tr>
<td>1976</td>
<td>6.4</td>
<td>1987</td>
<td>4.2</td>
<td>1998</td>
<td>1.3</td>
<td>2009</td>
<td>0.0</td>
</tr>
<tr>
<td>1977</td>
<td>5.9</td>
<td>1988</td>
<td>4.0</td>
<td>1999</td>
<td>2.5</td>
<td>2010</td>
<td>0.0</td>
</tr>
<tr>
<td>1978</td>
<td>6.5</td>
<td>1989</td>
<td>4.7</td>
<td>2000</td>
<td>3.5</td>
<td>2011</td>
<td>3.6</td>
</tr>
<tr>
<td>1979</td>
<td>9.9</td>
<td>1990</td>
<td>5.4</td>
<td>2001</td>
<td>2.6</td>
<td>2012</td>
<td>1.7</td>
</tr>
<tr>
<td>1982</td>
<td>7.4</td>
<td>1993</td>
<td>2.6</td>
<td>2004</td>
<td>2.7</td>
<td>2015</td>
<td>0.0</td>
</tr>
<tr>
<td>1983</td>
<td>3.5</td>
<td>1994</td>
<td>2.8</td>
<td>2005</td>
<td>4.1</td>
<td>2016</td>
<td>0.3</td>
</tr>
<tr>
<td>1984</td>
<td>3.5</td>
<td>1995</td>
<td>2.6</td>
<td>2006</td>
<td>3.3</td>
<td>2017</td>
<td>2.0</td>
</tr>
<tr>
<td>1985</td>
<td>3.1</td>
<td>1996</td>
<td>2.9</td>
<td>2007</td>
<td>2.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Simple, right?

- Bureau of Labor Statistics produces monthly data on changes in prices paid for a representative basket of goods and services

- CPI-W (and CPI-U) based on experience of the relevant average household (spending habits survey of 7,000 families)

- Other indices, other approaches
Chained CPI (C-CPI-U)

- Based on idea that in an inflationary environment, consumers will choose less-expensive substitutes

- Lower-level vs. higher-level substitution bias

- By age 85, benefits would be about **6.5% lower**

- OCACT estimates C-CPI-U would *reduce* the annual COLA by **0.3** percentage point, on average
CPI for the Elderly (CPI-E)

- Basket of goods and services for those age 62+
- Certain expenditure groups, such as medical care and housing, are given greater weight
- By age 85, benefits would be about \textbf{4.6\% higher}
- OCACT estimates CPI-E would \textit{increase} the annual COLA by \textbf{0.2 percentage point, on average}
Other variations

- Proposals to reduce or increase annual COLA (as currently calculated) by a set amount

- Chained CPI-W, chained CPI-E

- Hold disabled (DI), lower earners harmless

- No COLA for high earners
So what?

- Switching from CPI-W to chained CPI-W starting December 2019 = **20%** of shortfall eliminated

- Switching from CPI-W to CPI-E starting December 2020 = **14% increase** in shortfall

- Reducing the annual COLA by 1 percentage point starting December 2019 = **64%** of shortfall eliminated
Resources

- About 140 provisions scored annually:
  https://www.ssa.gov/oact/solvency/provisions/index.html

- Cost-of-living adjustment provisions:
  https://www.ssa.gov/oact/solvency/provisions/cola.html

- Bureau of Labor Statistics – Consumer Price Index:
  https://www.bls.gov/cpi/home.htm